

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Unit Name Sault Ste. Marie Housing Commission	County Chippewa
Fiscal Year End 3-31-06	Opinion Date 6-1-06	Date Audit Report Submitted to State 7-20-06	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

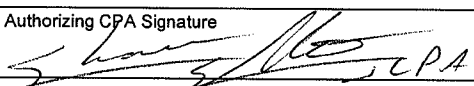
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Check each applicable box below. (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☒ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☒ ☐ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>		
Other (Describe)	<input checked="" type="checkbox"/>	N/A	
Certified Public Accountant (Firm Name) Anderson, Tackman & Company, PLC		Telephone Number 906-774-6926	
Street Address Po Box 828		City Iron Mountain	State MI
		Zip 49801	
Authorizing CPA Signature 		Printed Name Shane M. Ellison, CPA	
		License Number 263063	

SAULT STE. MARIE HOUSING COMMISSION

REPORT ON FINANCIAL STATEMENTS

(with supplemental information)

For the Year Ended March 31, 2006

SAULT STE. MARIE HOUSING COMMISSION

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ANDERSON, TACKMAN & COMPANY, P.L.C.
CERTIFIED PUBLIC ACCOUNTANTS

A Regional Firm with Offices in Michigan and Wisconsin

Principals - Iron Mountain:

L. Robert Schaut, CPA
David J. Johnson, CPA
Shane M. Ellison, CPA

Member of:

Private Companies Practice Section
American Institute of Certified
Public Accountants

INDEPENDENT AUDITORS' REPORT

Board of Commissioners
Sault Ste. Marie Housing Commission
Sault Ste. Marie, Michigan

We have audited the accompanying basic financial statements of the business-type activities of the Sault Ste. Marie Housing Commission, a component unit of the City of Sault Ste. Marie, Michigan, as of and for the year ended March 31, 2006 as listed in the Table of Contents. These basic financial statements are the responsibility of the Commission's management. Our responsibility is to express an opinion on these basic financial statements based on our audit.

We conducted our audit in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall basic financial statements presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the Sault Ste. Marie Housing Commission as of March 31, 2006, and the respective changes in financial position and cash flows, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 1, 2006 on our consideration of the Sault Ste. Marie Housing Commission's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 5 through 8 is not a required part of the financial statements but is required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Sault Ste. Marie Housing Commission's basic financial statements. The Financial Data Schedule is presented for the purpose of additional analysis as required by the U.S. Department of Urban Housing and Development and is not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*", and is also not a required part of the basic financial statements of Sault Ste. Marie Housing Commission. The Financial Data Schedule and the Schedule of Expenditures of Federal Awards have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.



ANDERSON, TACKMAN & COMPANY, PLC
Certified Public Accountants
Iron Mountain, Michigan

June 1, 2006

MANAGEMENT DISCUSSION AND ANALYSIS (UNAUDITED)

Our discussion and analysis of the Sault Ste. Marie Housing Commission's financial performance provides an overview of the financial activities for the year ended March 31, 2006. Please read it in conjunction with the Commission's financial statements, which begin on page 9.

FINANCIAL HIGHLIGHTS

- Net assets for the entire Commission were \$7,441,719 at March 31, 2006 compared to \$7,649,959 at March 31, 2005.
- The Commission's operating revenues totaled \$1,391,424 for March 31, 2006 and \$1,426,978 for March 31, 2005, while operating expenses totaled \$1,974,110 for March 31, 2006 and \$1,957,190 for March 31, 2005.

USING THIS REPORT

This annual report consists of a series of financial statements. The Statement of Net Assets, Statement of Activities, Statement of Revenues, Expenses and Change in Net Assets, and the Statement of Cash Flows (on pages 9 to 12) provide information about the activities of the Commission as a whole and present a longer-term view of the Commission's finances.

REPORTING THE COMMISSION AS A WHOLE

Our analysis of the Commission as a whole begins on page 9. One of the most important questions asked about the Commission's finances is "Is the Commission, as a whole, better off or worse off as a result of the year's activities?" The Statement of Net Assets, Statement of Activities, and the Statement of Revenues, Expenses, and Change in Net Assets report information about the Commission as a whole and about its activities in a way that helps answer this question. These statements include *all* assets and liabilities using the *accrual basis of accounting*, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid. These two statements report the Commission's *net assets* and changes in them. You can think of the Commission's net assets – the difference between assets and liabilities – as one way to measure the Commission's financial health, or *financial position*. Over time, *increases or decreases* in the Commission's net assets are one indicator of whether its *financial health* is improving or deteriorating. You will need to consider other non-financial factors, however, such as changes in the population of low income and elderly individuals.

In the Statement of Net Assets, Statement of Activities, Statement of Revenues, Expenses, and Change in Net Assets, and the Statement of Cash Flows, the Commission's activities are reported as business-type activities:

- Business-type activities – The Commission charges rent to tenants to help cover all or most of the costs of services it provides.

REPORTING THE COMMISSION'S MOST SIGNIFICANT FUNDS

Our analysis of the Commission's major activities begins on page 9. The financial statements provide detailed information on all of the Commission's activities. The Commission uses proprietary funds to account for its activities. The method of accounting for proprietary funds is explained below.

- *Proprietary funds* – The Commission charges tenants rent for the housing services it provides and these services are reported in a proprietary fund. Proprietary funds are reported in the same way for its activities and are reported in the Statement of Net Assets and the Statement of Revenues, Expenses, and Change in Net Assets.

THE COMMISSION AS A WHOLE

The Commission's combined net assets at March 31, 2006 decreased \$(208,240) from March 31, 2005.

Table 1

NET ASSETS

	Assets	
	March 31,	
	2006	2005
Current assets	\$ 1,038,760	\$ 1,188,514
Capital assets (net)	<u>6,681,430</u>	<u>6,816,464</u>
Total assets	<u>7,720,190</u>	<u>8,004,978</u>
Liabilities		
Current liabilities	278,471	326,200
Non-current liabilities	<u>32,640</u>	<u>31,429</u>
Total liabilities	<u>278,471</u>	<u>357,629</u>
Net Assets		
Invested in capital assets, net of related debt	6,681,430	6,816,464
Unrestricted	<u>760,289</u>	<u>833,495</u>
Net Assets	<u>\$ 7,441,719</u>	<u>\$ 7,649,959</u>

Net assets of the Commission stood at \$7,441,719 at March 31, 2006 compared to \$7,649,959 at March 31, 2005. Unrestricted net business assets were \$760,289 compared to \$833,495 at March 31, 2005. In general, the Commission's unrestricted net assets are used to fund operations of the Commission. The decrease in current assets was primarily due to the Commission using its reserves to purchase capital assets in excess of capital funds received.

Table 2**CHANGE IN NET ASSETS**

	Year Ended March 31,	
	2006	2005
Revenues:		
Program revenues:		
Charges for services	\$ 665,736	\$ 681,886
Program grants and subsidies	881,702	1,098,091
General revenues:		
Other revenues	190,898	173,639
Unrestricted investment earnings	<u>27,534</u>	<u>18,723</u>
Total revenues	1,765,870	1,972,339
Program Expenses:		
Operating expenses	<u>1,974,110</u>	<u>1,954,580</u>
Change in net assets	(208,240)	17,759
Net assets - beginning of period	<u>7,649,959</u>	<u>7,632,200</u>
Net assets - end of period	<u>\$ 7,441,719</u>	<u>\$ 7,649,959</u>

BUSINESS – TYPE ACTIVITIES

Revenues for the Commission totaled \$1,765,870 compared to \$1,972,339 during March 31, 2005. The Commission's average unit months leased on a monthly basis had decreased during the current year. In addition, HUD operating funds and capital funding grants had decreased during the current year. The Commission depends on HUD operating and capital grants to assist in covering its operating expenses. The increase in operating expenses is largely due to increase in depreciation.

CAPTIAL ASSETS

Capital Assets

The Commission had \$16,838,819 invested in a variety of capital assets including land, equipment and buildings at March 31, 2006 compared to \$16,408,176 at March 31, 2005.

Table 3

CAPITAL ASSETS Business - Type Activity

	March 31,	
	2006	2005
Land and improvements	\$ 2,925,502	\$2,922,052
Building and improvements	13,295,652	12,812,093
Equipment	466,613	441,905
Construction-in-progress	151,052	232,126
Total	16,838,819	16,408,176
Less accumulated depreciation	(10,157,389)	(9,591,712)
NET CAPITAL ASSETS	\$ 6,681,430	\$6,816,464

The Commission invested \$451,909 in capital assets during the year ended March 31, 2006.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The Commission's appointed officials considered many factors when setting the budget for the fiscal year 2006/2007. The current availability of low income and elderly tenants has been a major contributing factor in establishing the budgeted amounts. In the upcoming year, we do not anticipate any significant change in the occupancy rate and availability of new tenants that will provide any substantial increase in revenues. There continues to be a variety of inflationary cost and expense issues out of the control of the Commission. All of these were taken into consideration during the 2006/2007 budget process.

CONTACTING THE COMMISSION'S FINANCIAL MANAGEMENT

This financial report is designed to provide the readers with a general overview of the Commission's finances and to show the Commission's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Commission's Executive Director, Patricia Shimmens, at 608 Pine Street, Sault Ste. Marie, Michigan 49783, or call 906-635-5841.

SAULT STE. MARIE HOUSING COMMISSION

**STATEMENT OF NET ASSETS
Proprietary Fund**

March 31, 2006

CURRENT ASSETS:

Cash and equivalents	\$ 382,153
Accounts receivable	84,203
Investments	558,160
Prepaid expenses	<u>14,244</u>

TOTAL CURRENT ASSETS	<u>1,038,760</u>
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NONCURRENT ASSETS:

Capital assets	16,838,819
Less accumulated depreciation	<u>(10,157,389)</u>

NET CAPITAL ASSETS	<u>6,681,430</u>
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TOTAL ASSETS	<u>\$ 7,720,190</u>
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CURRENT LIABILITIES:

Accounts payable	\$ 86,801
Accrued liabilities	<u>159,030</u>

TOTAL CURRENT LIABILITIES	245,831
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NONCURRENT LIABILITIES	<u>32,640</u>
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TOTAL LIABILITIES	<u>278,471</u>
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NET ASSETS:

Investment in capital assets, net of related debt	6,681,430
Unrestricted net assets	<u>760,289</u>

NET ASSETS	<u>\$ 7,441,719</u>
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The accompanying notes to financial statements are an integral part of this statement.



**ANDERSON, TACKMAN
& COMPANY, P.L.C.**
CERTIFIED PUBLIC ACCOUNTANTS

SAULT STE. MARIE HOUSING COMMISSION

STATEMENT OF ACTIVITIES

For the Year Ended March 31, 2006

FUNCTIONS/PROGRAMS	Program Revenue			Net (Expense) Revenue and Changes in Net Assets
	Expenses	Fees, Fines and Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
BUSINESS-TYPE ACTIVITIES:				
Public Housing	\$ 1,974,110	\$ 665,736	\$ 725,688	\$ 346,912
				\$ (235,774)
General revenues:				
Unrestricted investment earnings				27,534
Total general revenues				27,534
Changes in net assets				(208,240)
NET ASSETS, beginning of year				7,649,959
NET ASSETS, end of year				\$ 7,441,719

The accompanying notes to the financial statements are an integral part of this statement.

SAULT STE. MARIE HOUSING COMMISSION

**STATEMENT OF REVENUES, EXPENSES, AND CHANGE
IN NET ASSETS
Proprietary Fund**

For the Year Ended March 31, 2006

OPERATING REVENUES:

Tenant revenue	\$ 665,736
Program grants-subsidies	534,790
Other operating income	<u>190,898</u>

TOTAL OPERATING REVENUES	<u>1,391,424</u>
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OPERATING EXPENSES:

Administration	348,052
Tenant services	73,875
Utilities	329,248
Maintenance	349,063
General	88,785
Other operating	46,620
Housing assistance payments	151,524
Depreciation	<u>586,943</u>

TOTAL OPERATING EXPENSES	<u>1,974,110</u>
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OPERATING (LOSS)	<u>(582,686)</u>
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NONOPERATING REVENUES AND (EXPENSES):

Capital grants	346,912
Interest income	<u>27,534</u>

TOTAL NONOPERATING REVENUES AND (EXPENSES)	<u>374,446</u>
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CHANGE IN NET ASSETS	(208,240)
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NET ASSETS, BEGINNING OF YEAR	<u>7,649,959</u>
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NET ASSETS, END OF YEAR	<u>\$ 7,441,719</u>
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**ANDERSON, TACKMAN
& COMPANY, P.L.C.**
CERTIFIED PUBLIC ACCOUNTANTS



The accompanying notes to financial statements are an integral part of this statement.

SAULT STE. MARIE HOUSING COMMISSION

STATEMENT OF CASH FLOWS
Proprietary Fund

For the Year Ended March 31, 2006

CASH FLOWS FROM OPERATING ACTIVITIES:

Cash received from customers	\$ 665,099
Cash received from grants and subsidies	570,660
Cash payments to suppliers for goods and services	(944,685)
Cash payments for wages and related benefits	(489,654)
Cash payments for payment in lieu of taxes	(35,078)
Cash received from other revenues	<u>191,414</u>

NET CASH (USED) BY OPERATING ACTIVITIES (42,244)

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:

Capital grants	346,912
Acquisition of capital assets	<u>(451,909)</u>

NET CASH (USED) BY CAPITAL AND
RELATED FINANCING ACTIVITIES (104,997)

CASH FLOWS FROM INVESTING ACTIVITIES:

Purchase of investments	(100,226)
Investment income	<u>26,502</u>

NET CASH (USED) BY INVESTING ACTIVITIES (73,724)

NET (DECREASE) IN CASH AND EQUIVALENTS (220,965)

CASH AND EQUIVALENTS, BEGINNING OF YEAR 603,118

CASH AND EQUIVALENTS, END OF YEAR \$ 382,153

RECONCILIATION OF OPERATING INCOME TO NET

CASH PROVIDED BY OPERATING ACTIVITIES:

Operating income (loss)	\$ (582,686)
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	586,943
Changes in assets and liabilities:	
Decrease (Increase) in receivables	35,749
Decrease (Increase) in prepaid expenses	(5,702)
Increase (Decrease) in accounts payable	(72,662)
Increase (Decrease) in accrued liabilities	<u>(3,886)</u>

NET CASH (USED) BY OPERATING ACTIVITIES \$ (42,244)

The accompanying notes to financial statements are an integral part of this statement.



SAULT STE. MARIE HOUSING COMMISSION

NOTES TO FINANCIAL STATEMENTS

March 31, 2006

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

THE REPORTING ENTITY

The Sault Ste. Marie Housing Commission (Commission) was formed by the City of Sault Ste. Marie Commission under Public Act 18 of 1933 of the State of Michigan. The Commission operates under a Board of Commissioners appointed by the City Manager.

The Commission manages 260 units of low rent public housing and 50 section 8 vouchers of which, for financial reporting purposes, includes all of the activities relevant to its operations.

Component Unit

In evaluating how to define the Commission for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria set forth in GAAP, currently GASB Statement #14, *The Financial Reporting Entity*.

The criteria established by the Governmental Accounting Standards Board for determining the various governmental organizations to be included in the reporting entity's financial statements include budget adoption, taxing authority, funding, appointment of the respective governing board, and scope of public service.

Based on the foregoing criteria, it was determined that there are no component units of the Sault Ste. Marie Housing Commission, but the Sault Ste. Marie Commission is a component unit of the City of Sault Ste. Marie, Michigan.

The accounting policies of the Commission conform to accounting principles generally accepted in the United States of America. The following is a summary of such significant policies.

BASIS OF PRESENTATION

The Commission presents its financial statements in accordance with Governmental Accounting Standards Board (GASB) Statement No. 34.

Government-Wide Financial Statements:

The Statement of Net Assets, Statement of Activities, Statement of Revenues, Expenses and Change in Net Assets, and the Statement of Cash Flows display information about the Commission as a whole. They include all business-type activities of the Commission. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services.



SAULT STE. MARIE HOUSING COMMISSION

NOTES TO FINANCIAL STATEMENTS

March 31, 2006

(Continued)

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

BASIS OF PRESENTATION (Continued)

Proprietary Fund

Proprietary Funds are used to account for operations, (a) which are financed and operated in a manner similar to private business enterprises - where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

MEASUREMENT FOCUS AND BASIS OF ACCOUNTING

Measurement focus is a term used to describe "which" transactions are recorded within the various financial statements. Basis of accounting refers to "when" transactions are recorded regardless of the measurement focus applied.

Measurement Focus:

The government-wide Statement of Net Assets, Statement of Activities, and the Statement of Revenues, Expenses and Change in Net Assets are presented using the economic resource measurement focus as defined below.

- a. The Commission utilizes an "economic resources" measurement focus. The accounting objectives of this measurement focus are the determination of operating income, changes in net assets, financial position and cash flows. All assets and liabilities, whether current or noncurrent, associated with their activities are reported.

Basis of Accounting:

The Statement of Net Assets, Statement of Activities, Statement of Revenues, Expenses and Change in Net Assets, and Statement of Cash Flows are presented using the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used. Revenues, expenses, gains, losses, assets, and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place.

As allowed by GASB Statement No. 20, the Commission's business-type activity follows all GASB pronouncements and FASB Statements and Interpretations that were issued on or after November 30, 1989, except those that conflict with a GASB pronouncement.



SAULT STE. MARIE HOUSING COMMISSION

NOTES TO FINANCIAL STATEMENTS

March 31, 2006

(Continued)

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

ASSETS, LIABILITIES AND NET ASSETS

- a. Cash and Equivalents – The Commission's cash and cash equivalents, as reported in the Statement of Cash Flows and the Statement of Net Assets, are considered to be cash on hand, demand deposits, and short-term investments with maturities of three months or less.
- b. Receivables – All receivables are reported at their gross value and, where appropriate, are reduced by the estimated portion that is expected to be uncollectible.
- c. Due to and Due From Other Programs – Interprogram receivables and payables arise from interprogram transactions and are recorded by all funds affected in the period in which transactions are executed.
- d. Capital Assets – Capital assets purchased or acquired are capitalized at historical cost or estimated historical cost. Donated capital assets are valued at their estimated fair market value on the date received.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related capital assets.

Depreciation on all assets is provided on the straight-line basis over the estimated useful lives as follows:

Buildings and improvements	10-40 years
Furniture and other equipment	5-10 years

The Commission has adopted a capitalization policy for capital assets of \$500 per item.

- e. Compensated Absences - It is the Commission's policy to permit employees to accumulate a limited amount of earned but unused sick leave and vacation days, which will be paid to employees upon separation from the Commission. The cost of vested sick leave and vacation days are recognized as an expense as earned by the employees.
- f. Equity Classification

Equity is classified as net assets and displayed in two components:

1. Invested in capital assets – Consists of capital assets, net of accumulated depreciation.



SAULT STE. MARIE HOUSING COMMISSION

NOTES TO FINANCIAL STATEMENTS

March 31, 2006

(Continued)

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

ASSETS, LIABILITIES AND NET ASSETS (Continued)

2. Unrestricted net assets – All other net assets that do not meet the definition of “restricted” or “invested in capital assets, net of related debt.”

REVENUES AND EXPENSES

Operating revenues and expenses are those that result from providing services and producing and delivering goods and/or services. It also includes all revenue and expenses not related to capital and related financing, noncapital financing, or investing activities. Expenses are classified by operating and nonoperating and are subclassified by function, such as salaries, supplies, and contracted services.

OTHER SIGNIFICANT ACCOUNTING POLICIES

Interprogram Activity:

As a general rule, the effect of activity between programs has been eliminated from the government-wide statements.

The transfers of cash between the various Authority programs are reported separately from revenues and expenses as operating transfers in or (out), unless they represent temporary advances that are to be repaid, in which case, they are carried as assets and liabilities of the advancing or borrowing program.

Interprogram receivables and payables are eliminated from the Statement of Net Assets.

Budgets and Budgetary Accounting:

Budgets are adopted on a basis prescribed or permitted by the Department of Housing and Urban Development. All annual appropriations lapse at fiscal year end. The Commission follows these procedures in establishing the budgetary date reflected in the financial statements:

1. The Director submits to the Board a proposed operating budget for the fiscal year commencing on April 1st. The operating budget includes proposed expenses and the means of financing them. Prior to March 31st, the budget is legally adopted by Board resolution.
2. Formal budgetary integration is employed as a management control device during the year.
3. The budget has been amended. Supplemental appropriations were made during the year with the last one approved prior to March 31st.



SAULT STE. MARIE HOUSING COMMISSION

NOTES TO FINANCIAL STATEMENTS

March 31, 2006

(Continued)

NOTE B - CASH AND INVESTMENTS

Cash and Equivalents

The Commission's cash and equivalents, as reported in the Statement of Net Assets, consisted of the following:

Petty cash	\$ 150
Checking accounts	252,057
Savings and money market accounts	<u>129,946</u>
TOTAL	<u>\$ 382,153</u>

Custodial Credit Risk. Custodial credit risk is the risk that in the event of a bank failure, the Commission's deposits may not be returned. As of March 31, 2006, the Commission's cash and equivalents were fully insured.

Investments

The Commission's investments, as reported in the Statement of Net Assets, consisted of the following:

<u>Investment Type</u>	<u>Fair Value</u>	<u>(Investment Maturities in Years)</u>	
		<u>Less Than 1 Year</u>	<u>1 to 5 Years</u>
Certificates of Deposit	<u>\$558,160</u>	<u>\$438,089</u>	<u>\$120,071</u>

Investments are recorded at fair market value, which is based on quoted market prices.

Michigan statutes authorize the Commission to invest in bonds, other direct obligations and repurchase agreements of the United States, certificates of deposit, savings accounts, deposit accounts or receipts of a bank which is a member of the FDIC, commercial paper rated at the time of purchase within the two highest classifications established by not less than two standard rating services and matures within 270 days of date of purchase, bankers' acceptances of United States banks, obligations of the State of Michigan and its political subdivisions, external investment pools, and certain mutual funds.

Interest Rate Risk. Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of the Commission's investments. State law limits the allowable investments as described above. The Commission does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Custodial Credit Risk. Custodial credit risk is the risk that in the event of a bank failure, the Commission's investments may not be returned. As of March 31, 2006, the Commission's investments were fully insured.



SAULT STE. MARIE HOUSING COMMISSION

NOTES TO FINANCIAL STATEMENTS

March 31, 2006

(Continued)

NOTE B - CASH AND INVESTMENTS (Continued)

Credit Risk. Credit risk is the risk that an issuer or other party to an investment will not fulfill its obligations. The Commission has no investment policy limiting its investments in excess of state law on investment credit. Ratings are not required for the Commission's investments outlined above. The Commission's investments are in accordance with statutory authority.

Concentration of Credit Risk. The Commission places no limit on the amount the Commission may invest in one issuer. However, the Commission is required to have all funds in excess of insured amounts to be collateralized. The Commission's investments and balances are with the following financial institutions:

Central Savings Bank, Sault Ste. Marie, MI	\$ 29,301
Edward Jones, Sault Ste. Marie, MI	87,754
Soo Co-op Credit Union, Sault Ste. Marie, MI	90,000
National City Bank, Sault Ste. Marie, MI	50,000
The Huntington National Bank, Sault Ste. Marie, MI	<u>301,105</u>
Total	<u>\$558,160</u>

NOTE C - CAPITAL ASSETS

A summary of capital assets as of March 31, 2006 is as follows:

	Balance 4-1-05	Additions	Deletions	Balance 3-31-06
Land and improvements	\$2,922,052	\$ 3,450	\$ -	\$ 2,925,502
Building and improvements	12,812,093	483,559	-	13,295,652
Equipment	441,905	50,225	(25,517)	466,613
Construction-in-progress	<u>232,126</u>	<u>346,912</u>	<u>(427,986)</u>	<u>151,052</u>
	16,408,176	<u>\$ 884,146</u>	<u>\$ (453,503)</u>	16,838,819
Accumulated depreciation	<u>(9,591,712)</u>	<u>\$ (586,943)</u>	<u>\$ 21,266</u>	<u>(10,157,389)</u>
Net capital assets	<u>\$6,816,464</u>			<u>\$ 6,681,430</u>

Depreciation expense for the year was \$586,943.

NOTE D - RISK MANAGEMENT

The Commission is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Commission maintains commercial insurance covering each of those risks of loss. Management believes such coverage is sufficient to preclude any significant uninsured losses to the Commission. Settled claims have not exceeded this commercial coverage in any of the past three fiscal years.



SAULT STE. MARIE HOUSING COMMISSION

NOTES TO FINANCIAL STATEMENTS

March 31, 2006

(Continued)

NOTE E - USE OF ESTIMATES

The preparation of financial statements, in conformity with accounting principles generally accepted in the United States of America, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

NOTE F - VULNERABILITY DUE TO CERTAIN CONCENTRATIONS

The Commission is dependent upon the Department of Housing and Urban Development (HUD) to fund its operations through operating subsidies and capital funding grants. Total revenues for the year ended March 31, 2006 totaled \$1,765,870 of which \$881,702 or 49.9% was from HUD subsidies and grants.

The operations of the project are subject to rules and regulations of HUD. These rules and regulations are subject to change. Such changes may occur with short notice and could create a lack of funding to pay for operational related costs, including the additional administrative burden to comply with the changes.

NOTE G - PENSION PLAN

Plan Description

The City's defined benefit pension plan provides retirement, death and disability benefits to plan members and beneficiaries. The City participates in the Municipal Employees Retirement System of Michigan (MERS), an agent multiple-employer plan administered by the MERS Retirement Board. Act No. 427 of the Public Acts of 1984, as amended, establishes and amends the benefit provisions of the participants in MERS. The Municipal Employees Retirement System of Michigan issues a publicly available financial report that includes financial statements and required supplementary information for MERS. That report may be obtained by writing to the Municipal Employees Retirement System of Michigan, 447 N. Canal Road, Lansing, Michigan 48917 or by calling (800) 767-6377.

Funding Policy

The City is required to contribute at an actuarially determined rate; the current rate ranges from 0.00% to 3.34% of annual covered payroll. City employees currently make no contribution to the Plan. The contribution requirements of the City are established and may be amended by the Retirement Board of MERS. The contribution requirements of plan members are established and may be amended by the City, depending on the MERS contribution program adopted by the City.



SAULT STE. MARIE HOUSING COMMISSION

NOTES TO FINANCIAL STATEMENTS

March 31, 2006

(Continued)

NOTE G – PENSION PLAN (Continued)

Annual Pension Cost

The required contribution was determined using the entry age actuarial cost method. The actuarial assumptions included (a) a rate of return on the investment of present and future assets of 8%, (b) additional projected salary increases up to 4.2% per year, depending on age, attributable to seniority/merit, and (c) an inflationary rate of 4.5%. The actuarial value of MERS assets was determined on the basis of a valuation method that assumes the fund earns the expected rate of return, and includes an adjustment to reflect fair value. The City's overfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at December 31, 2004, the date of the last actuarial valuation, was 30 years.

Three-Year Trend Information

Fiscal Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
6/30/2003	\$ 113,323	100%	\$ -
6/30/2004	119,400	100%	-
6/30/2005	143,911	100%	-

Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability(AAL) Entry Age (b)	Over- funded (AAL) (UAAL) (b-a)	Funded Ratio (ab)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)c)
12/31/2000	16,694,480	15,878,641	815,839	105%	3,741,740	0%
12/31/2001	17,481,855	15,814,445	1,667,410	111%	3,468,584	0%
12/31/2002	17,502,766	17,447,662	55,104	100%	3,670,545	0%
12/31/2003	18,223,939	18,105,810	118,129	101%	3,945,779	0%
12/31/2004	18,890,155	19,779,167	(889,012)	96%	3,611,570	25%





**SUPPLEMENTAL
INFORMATION**



**ANDERSON, TACKMAN
& COMPANY, P.L.C.**
CERTIFIED PUBLIC ACCOUNTANTS

SAULT STE. MARIE HOUSING COMMISSION

**FINANCIAL DATA SCHEDULE
Proprietary Fund**

March 31, 2006

Line Item #	Account Description	Business Activities	Low Rent Public Housing	Housing Choice Vouchers	Public Housing Capital Fund Program	TOTAL
ASSETS						
CURRENT ASSETS:						
Cash:						
111	Cash - unrestricted	\$ 84,182	\$ 235,606	\$ 62,365	\$ -	\$ 382,153
100	Total cash	84,182	235,606	62,365	-	382,153
Accounts and notes receivables:						
122	Accounts receivable- HUD other projects	-	-	-	56,544	56,544
124	Accounts receivable- Other government	17,989	-	-	-	17,989
125	Accounts receivable- Miscellaneous	2,352	-	-	-	2,352
126	Accounts receivable- Tenants - dwelling rents	-	22,197	-	-	22,197
126.1	Allowance for doubtful accounts - dwelling rents	-	(17,678)	-	-	(17,678)
129	Accrued interest receivable	-	2,799	-	-	2,799
120	Total receivables, net of allowances for doubtful accounts	20,341	7,318	-	56,544	84,203
Other current assets:						
131	Investments	-	558,160	-	-	558,160
142	Prepaid expenses	-	14,244	-	-	14,244
144	Interprogram due from	-	68,380	-	-	68,380
150	TOTAL CURRENT ASSETS	104,523	883,708	62,365	56,544	1,107,140

See accompanying notes to financial statements



**ANDERSON, TACKMAN
& COMPANY, P.L.C.**
CERTIFIED PUBLIC ACCOUNTANTS

SAULT STE. MARIE HOUSING COMMISSION

**FINANCIAL DATA SCHEDULE
Proprietary Fund**

March 31, 2006

Line Item #	Account Description	Business Activities	Low Rent Public Housing	Housing Choice Vouchers	Public Housing Capital Fund Program	TOTAL
NONCURRENT ASSETS:						
Fixed assets:						
161	Land	-	460,439	-	-	460,439
162	Buildings	-	12,867,666	-	427,986	13,295,652
163	Furniture, equipment & machinery - dwellings	-	184,794	-	-	184,794
164	Furniture, equipment & machinery - administration	3,922	267,382	10,515	-	281,819
165	Leasehold improvements	-	2,465,063	-	-	2,465,063
166	Accumulated depreciation	(2,924)	(10,127,748)	(5,318)	(21,399)	(10,157,389)
167	Construction in progress	-	-	-	151,052	151,052
160	Total fixed assets, net of accumulated depreciation	998	6,117,596	5,197	557,639	6,681,430
180	TOTAL NONCURRENT ASSETS	998	6,117,596	5,197	557,639	6,681,430
190	TOTAL ASSETS	\$ 105,521	\$ 7,001,304	\$ 67,562	\$ 614,183	\$ 7,788,570

See accompanying notes to financial statements



ANDERSON, TACKMAN
& COMPANY, P.L.C.
CERTIFIED PUBLIC ACCOUNTANTS

SAULT STE. MARIE HOUSING COMMISSION

FINANCIAL DATA SCHEDULE
Proprietary Fund

March 31, 2006

Line Item #	Account Description	Business Activities	Low Rent Public Housing	Housing Choice Vouchers	Public Housing Capital Fund Program	TOTAL
LIABILITIES AND NET ASSETS						
LIABILITIES:						
CURRENT LIABILITIES						
312	Accounts payable ≤ 90 days	\$ 1,208	\$ 85,116	\$ 477	\$ -	\$ 86,801
321	Accrued wages / payroll taxes payable	-	30,469	-	-	30,469
322	Accrued compensated absences - current portion	743	9,310	625	-	10,678
333	Accounts payable - other government	-	27,781	-	-	27,781
341	Tenant security deposits	-	72,577	-	-	72,577
342	Deferred revenues	-	17,525	-	-	17,525
347	Interprogram due from	10,481	-	1,355	56,544	68,380
310	TOTAL CURRENT LIABILITIES	12,432	242,778	2,457	56,544	314,211
354	Accrued compensated absences - non current	1,664	29,780	1,196	-	32,640
350	TOTAL NONCURRENT LIABILITIES	1,664	29,780	1,196	-	32,640
300	TOTAL LIABILITIES	14,096	272,558	3,653	56,544	346,851

See accompanying notes to financial statements



ANDERSON, TACKMAN
& COMPANY, P.L.C.
CERTIFIED PUBLIC ACCOUNTANTS

SAULT STE. MARIE HOUSING COMMISSION

FINANCIAL DATA SCHEDULE
Proprietary Fund

March 31, 2006

<u>Line Item #</u>	<u>Account Description</u>	<u>Business Activities</u>	<u>Low Rent Public Housing</u>	<u>Housing Choice Vouchers</u>	<u>Public Housing Capital Fund Program</u>	<u>TOTAL</u>
<u>NET ASSETS</u>						
508.1	Investment in capital assets, net of related debt	998	6,117,596	5,197	557,639	6,681,430
512.1	Unrestricted net assets	90,427	611,150	58,712	-	760,289
513	TOTAL NET ASSETS	91,425	6,728,746	63,909	557,639	7,441,719
600	TOTAL LIABILITIES AND NET ASSETS	\$ 105,521	\$ 7,001,304	\$ 67,562	\$ 614,183	\$ 7,788,570



ANDERSON, TACKMAN
& COMPANY, P.L.C.
CERTIFIED PUBLIC ACCOUNTANTS

SAULT STE. MARIE HOUSING COMMISSION

FINANCIAL DATA SCHEDULE
Proprietary Fund

For the Year Ended March 31, 2006

Line Item #	Account Description	Business Activities	Low Rent Public Housing	Housing Choice Vouchers	Public Housing Capital Fund Program	TOTAL
<u>REVENUES</u>						
703	Net tenant rental revenue	\$ -	\$ 607,121	\$ -	\$ -	\$ 607,121
704	Tenant revenue - other	-	58,615	-	-	58,615
705	Total tenant revenue	-	665,736	-	-	665,736
706	HUD PHA grants	-	363,559	159,309	11,922	534,790
706.1	Capital grants	-	-	-	346,912	346,912
708	Other government grants	106,158	-	-	-	106,158
711	Investment income - unrestricted	294	27,140	100	-	27,534
714	Fraud recovery	-	-	550	-	550
715	Other revenue	53,323	30,867	-	-	84,190
700	TOTAL REVENUE	159,775	1,087,302	159,959	358,834	1,765,870
<u>EXPENSES</u>						
Administrative:						
911	Administrative salaries	11,088	142,010	10,446	9,465	173,009
912	Auditing fees	-	4,330	300	-	4,630

See accompanying notes to financial statements



**ANDERSON, TACKMAN
& COMPANY, P.L.C.**
CERTIFIED PUBLIC ACCOUNTANTS

SAULT STE. MARIE HOUSING COMMISSION

**FINANCIAL DATA SCHEDULE
Proprietary Fund**

For the Year Ended March 31, 2006

Line Item #	Account Description	Business Activities	Low Rent Public Housing	Housing Choice Vouchers	Public Housing Capital Fund Program	TOTAL
914	Compensated absences	(176)	2,211	70	-	2,105
915	Employee benefit contributions- administrative	3,085	45,720	3,357	2,457	54,619
916	Other operating- administrative	15,881	91,173	6,635	-	113,689
	Total Administrative	29,878	285,444	20,808	11,922	348,052
Tenant services:						
921	Tenant services - salaries	45,587	6,854	-	-	52,441
923	Employee benefit contributions- tenant services	16,817	2,942	-	-	19,759
924	Tenant services - other	-	1,675	-	-	1,675
	Total Tenant Services	62,404	11,471	-	-	73,875
Utilities:						
931	Water	-	94,992	-	-	94,992
932	Electricity	-	26,403	-	-	26,403
933	Gas	-	207,853	-	-	207,853
	Total Utilities	-	329,248	-	-	329,248
Maintenance:						
941	Ordinary maintenance and operations - labor	-	142,178	-	-	142,178



**ANDERSON, TACKMAN
& COMPANY, P.L.C.**
CERTIFIED PUBLIC ACCOUNTANTS

SAULT STE. MARIE HOUSING COMMISSION

**FINANCIAL DATA SCHEDULE
Proprietary Fund**

For the Year Ended March 31, 2006

Line Item #	Account Description	Business Activities	Low Rent Public Housing	Housing Choice Vouchers	Public Housing Capital Fund Program	TOTAL
942	Ordinary maintenance and operations - materials & other	1,057	44,360	-	-	45,417
943	Ordinary maintenance and operations - contract costs	-	111,914	-	-	111,914
945	Employee benefit contributions- ordinary maintenance	-	49,554	-	-	49,554
	Total Maintenance	1,057	348,006	-	-	349,063
General expenses:						
961	Insurance premiums	-	59,941	-	-	59,941
962	Other general expenses	-	200	-	-	200
963	Payments in lieu of taxes	-	27,781	-	-	27,781
964	Bad debt - tenant rents	-	863	-	-	863
	Total General Expenses	-	88,785	-	-	88,785
969	TOTAL OPERATING EXPENSES	93,339	1,062,954	20,808	11,922	1,189,023
970	EXCESS OPERATING REVENUE OVER OPERATING EXPENSES	66,436	24,348	139,151	346,912	576,847



ANDERSON, TACKMAN
& COMPANY, P.L.C.
CERTIFIED PUBLIC ACCOUNTANTS

SAULT STE. MARIE HOUSING COMMISSION

FINANCIAL DATA SCHEDULE
Proprietary Fund

For the Year Ended March 31, 2006

Line Item #	Account Description	Business Activities	Low Rent Public Housing	Housing Choice Vouchers	Public Housing Capital Fund Program	TOTAL
971	Extraordinary maintenance	-	46,620	-	-	46,620
973	Housing assistance payments	39,293	-	112,231	-	151,524
974	Depreciation expense	508	563,028	2,008	21,399	586,943
900	TOTAL EXPENSES	133,140	1,672,602	135,047	33,321	1,974,110
1000	EXCESS (DEFICIENCY) OF TOTAL REVENUE OVER (UNDER) TOTAL EXPENSES	\$ 26,635	\$ (585,300)	\$ 24,912	\$ 325,513	\$ (208,240)
MEMO account information						
1103	Beginning equity	\$ 64,790	\$ 7,001,994	\$ 36,387	\$ 544,178	\$ 7,647,349
1104	Prior Period Adjustments, Equity Transfers	\$ -	\$ 312,052	\$ 2,610	\$ (312,052)	\$ 2,610
1113	Maximum Annual Contributions Commitment (Per ACC)	\$ -	\$ -	\$ 158,571	\$ -	\$ 158,571
1115	Contingency Reserve, ACC Program Reserve	\$ -	\$ -	\$ 3,715	\$ -	\$ 3,715
1116	Total Annual Contributions Available	\$ -	\$ -	\$ 162,286	\$ -	\$ 162,286
1120	Unit months available	-	3,120	520	-	3,640
1121	Number of unit months leased	-	3,077	520	-	3,597

See accompanying notes to financial statements



SAULT STE. MARIE HOUSING COMMISSION

FEDERAL AUDIT REPORTS

For the Year Ended March 31, 2006

SAULT STE. MARIE HOUSING COMMISSION

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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

Board of Commissioners
Sault Ste. Marie Housing Commission
Sault Ste. Marie, Michigan

We have audited the financial statements of the business-type activities of the Sault Ste. Marie Housing Commission as of and for the year ended March 31, 2006, which collectively comprise the Sault Ste. Marie Housing Commission's basic financial statements, and have issued our report thereon dated June 1, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Sault Ste. Marie Housing Commission's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the general purpose financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Sault Ste. Marie Housing Commission's general purpose financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of noncompliance that we have reported to management of the Sault Ste. Marie Housing Commission in a separate letter dated June 1, 2006.

This report is intended solely for the information of the Board of Commissioners, management and the Department of Housing and Urban Development and is not intended to be and should not be used by anyone other than those specified parties.

Anderson Tackman & Co. PLLC

ANDERSON, TACKMAN & COMPANY, PLC
Certified Public Accountants
Iron Mountain, Michigan

June 1, 2006

ANDERSON, TACKMAN
& COMPANY, P.L.C.
CERTIFIED PUBLIC ACCOUNTANTS



**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR
PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH
OMB CIRCULAR A-133**

Board of Commissioners
Sault Ste. Marie Housing Commission
Sault Ste. Marie, Michigan

Compliance

We have audited the compliance of Sault Ste. Marie Housing Commission with the types of compliance requirements described in the "U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement" that are applicable to each of its major federal programs for the year ended March 31, 2006. Sault Ste. Marie Housing Commission's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Sault Ste. Marie Housing Commission's management. Our responsibility is to express an opinion on Sault Ste. Marie Housing Commission's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Sault Ste. Marie Housing Commission's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Sault Ste. Marie Housing Commission's compliance with those requirements.

In our opinion Sault Ste. Marie Housing Commission complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended March 31, 2006.

Internal Control Over Compliance

The management of Sault Ste. Marie Housing Commission is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered Sault Ste. Marie Housing Commission's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

ANDERSON, TACKMAN
& COMPANY, P.L.C.
CERTIFIED PUBLIC ACCOUNTANTS



**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR
PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH
OMB CIRCULAR A-133
(Continued)**

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants, that would be material in relation to a major federal program being audited, may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the audit committee, management and federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

Anderson, Tackman & Co. PLC

ANDERSON, TACKMAN & COMPANY, PLC
Certified Public Accountants
Iron Mountain, Michigan

June 1, 2006

ANDERSON, TACKMAN
& COMPANY, P.L.C.
CERTIFIED PUBLIC ACCOUNTANTS



SAULT STE. MARIE HOUSING COMMISSION

For the Year Ended March 31, 2006

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Federal Grantor/Pass <u>Through Grantor</u>	Federal CFDA <u>Number</u>	Award <u>Amount</u>	Expensed as of <u>3-31-05</u>	3-31-06 Federal <u>Expenditures</u>
Operating Subsidy	14.850	<u>\$ 363,559</u>	<u>\$ -</u>	<u>\$ 363,559</u>
Section 8 Rental Voucher	14.871	<u>\$ 159,309</u>	<u>\$ -</u>	<u>\$ 159,309</u>
Capital Funding	14.872			
501-04		\$ 427,986	\$ 232,126	\$ 195,860
501-04		<u>407,397</u>	<u>-</u>	<u>162,974</u>
		<u>\$ 835,383</u>	<u>\$ 232,126</u>	<u>\$ 358,834</u>
Total Department of Housing and Urban Development				<u>\$ 881,702</u>
TOTAL FEDERAL EXPENDITURES				<u>\$ 881,702</u>

ANDERSON, TACKMAN
& COMPANY, P.L.C.
CERTIFIED PUBLIC ACCOUNTANTS



See accompanying notes to the schedule of expenditures of federal awards.

SAULT STE. MARIE HOUSING COMMISSION

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the Year Ended March 31, 2006

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

The accompanying schedule of expenditures of federal awards includes the federal grant activity of Sault Ste. Marie Housing Commission and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

NOTE B - COST REPORTS

Management has reported the expenditures in the Schedule of Expenditures of Federal Awards equal to those amounts reported in the modernization cost reports.

ANDERSON, TACKMAN
& COMPANY, P.L.C.
CERTIFIED PUBLIC ACCOUNTANTS



SAULT STE. MARIE HOUSING COMMISSION

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For the Year Ended March 31, 2006

A. SUMMARY OF AUDITORS' RESULTS

1. The auditors' report expresses an unqualified opinion of the general purpose financial statements of the Sault Ste. Marie Housing Commission.
2. There were no reportable conditions relating to the audit of the general purpose financial statements.
3. There were no instances of noncompliance material to the general purpose financial statements of the Sault Ste. Marie Housing Commission.
4. There were no reportable conditions relating to the audit of the major federal award programs as reported in the Report on Compliance with Requirements Applicable to Each Major Program and Internal Control over Compliance in Accordance with OMB Circular A-133.
5. The auditors' report on compliance for the major federal award programs for the Sault Ste. Marie Housing Commission expresses an unqualified opinion.
6. There were no audit findings relative to the major federal award programs for the Sault Ste. Marie Housing Commission.
7. The programs tested as major programs included:
 - A. Operating Subsidy – CFDA 14.850
8. The threshold for distinguishing Types A and B programs was \$300,000.
9. Sault Ste. Marie Housing Commission was determined to be a low-risk auditee.

B. FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARD PROGRAMS AUDIT

1. There were no findings or questioned costs.

C. PRIOR FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAMS AUDIT

1. There were no prior findings or questioned costs.





ANDERSON, TACKMAN & COMPANY, P.L.C.
CERTIFIED PUBLIC ACCOUNTANTS

A Regional Firm with Offices in Michigan and Wisconsin

Principals - Iron Mountain:

L. Robert Schaut, CPA
David J. Johnson, CPA
Shane M. Ellison, CPA

Member of:

Private Companies Practice Section
American Institute of Certified
Public Accountants

June 1, 2006

Board of Commissioners
Sault Ste. Marie Housing Commission
Sault Ste. Marie, Michigan

Dear Members of the Board:

In planning and performing our audit of the financial statements of the Sault Ste. Marie Housing Commission for the year ended March 31, 2006, we considered the entities internal control structure to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control structure.

During our audit we became aware of matters that are opportunities for strengthening internal controls and operating efficiency. The following summarizes our comments and suggestions regarding those matters. This letter does not affect our report dated June 1, 2006, on the financial statements of the Sault Ste. Marie Housing Commission.

1. During the review of disbursements it was noted that statements were cancelled but not the individual invoices upon payment. It was also noted that all utility invoices were not cancelled upon payment.

Recommendation

The Commission should have policies and procedures in place that requires it to effectively cancel its invoices once they are paid. This could be done by either writing "Paid" or stamping "Paid" on each invoice along with the check number and date.

2. During the audit it was noted that capital funds reported on the MASS submission did not tie to the trial balance.

Recommendation

The Commission should make sure that when the MASS submission is done that all amounts agree to actual amounts. Although the difference was \$901, the MASS submission needs to contain accurate information.

3. During the audit it was noted that the federal identification number on the W2's is the City of Sault Ste. Marie's and not the Commissions'.

Recommendation

The Commission should have the City pay in all payroll taxes and report all related payroll amounts under the Commission's federal identification number. Payroll related forms should be filed under the Commission's federal identification number and not the City's.

4. During the audit it was noted that 1099-Miscellaneous forms were not issued to vendors in which the Commission contracted services in accordance with Internal Revenue Service requirements.


Recommendation

The Commission should issue 1099-Miscellaneous forms to vendors per the 1099-Miscellaneous form instructions, at the end of every calendar year, that they have contracted services from.

We thank you for the opportunity to be of service. Do not hesitate to contact us if you have any questions. I found your staff to be very cooperative and a pleasure to work with.

Very truly yours,

ANDERSON, TACKMAN & COMPANY, PLC


Shane M. Ellison, CPA
Principal